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FORGE INC
Form 10QSB
December 10, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2002
Commission file number: 000-26047

FORGE, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware 65-0609891
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

Suite 610 - 375 Water Street
Vancouver, British Columbia V6B5C6
(Address of Principal Executive Offices)

(604) 801-5566
(Issuer's Telephone Number, Including Area Code)

428 West Sixth Avenue, Vancouver, British Columbia V5Y1L2
(Former Name, Former Address and Former Fiscal Year, if Changed
Since Last Report)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: December 6, 2002: 519,751 shares of common stock, \$.001 par value per share.

Transitional Small Business Disclosure Format (check one):

Yes No X

FORGE, INC. AND SUBSIDIARIES
FORM 10-QSB
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002
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FORGE, Inc.

Consolidated Balance Sheets (unaudited)

September 30,
2002

Assets

Current assets:

Cash	\$	-
Accounts receivable		85,095

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Prepaid expenses	50,943

	136,038
Property and equipment, less accumulated depreciation	87,213

	\$ 223,251
=====	
Liabilities and Stockholders' Deficit	
Current liabilities:	
Bank indebtedness	\$ 22,026
Accounts payable and accrued liabilities	966,972
Accrued salaries	146,738
Unearned revenue	-
Lease obligation - current portion	5,791

	1,141,527
Due to related parties	562,060
Note payable	27,239
Lease obligation	5,765

Total liabilities	1,736,591
Stockholders' deficit:	
Common stock	520
Additional paid-in capital	3,645,386
Deficit	(5,161,220)
Accumulated other comprehensive income (loss):	
Foreign currency translation adjustment	1,974

Total stockholders' deficit	(1,513,340)

	\$ 223,251
=====	

See accompanying notes to unaudited financial statements

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	Three Months Ended		Nine Months
	September 30, 2002	September 30, 2001	September 30, 2002
Revenue	\$ 365,237	\$ 305,880	\$ 1,657,961
Cost of revenue	(283,092)	(251,362)	(1,237,377)
Gross profit	82,145	54,518	420,583
Operating expenses:			
Depreciation	7,479	18,702	23,514
Salaries and fringe benefits	180,961	177,304	605,428
Stock-based compensation	-	28,725	-
Legal and accounting	12,016	18,553	94,113
Consulting fees and computer services	66,569	27,368	132,000
Phones and utilities	4,470	5,051	12,397
Rent	9,676	9,790	28,288
Advertising and promotion	13,997	4,197	47,483
Other selling, general and administrative	11,471	15,147	49,006
	306,639	304,837	992,228
Loss from operations	(224,494)	(250,319)	(571,645)
Other income (expenses):			
Interest expense	(19,333)	(18,521)	(47,251)
Net loss	(243,827)	(268,840)	(618,896)
Deficit, beginning of period	(4,917,393)	(3,818,112)	(4,542,324)
Deficit, end of period	\$ (5,161,220)	\$ (4,086,952)	\$ (5,161,220)
Net loss per common share, basic and diluted	(0.47)	(0.52)	(1.19)
Weighted average common shares outstanding, basic and diluted, after giving rise to reverse stock split described in Note 3.	519,751	512,370	519,046

See accompanying notes to the unaudited financial statements

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FORGE, Inc.
Consolidated Statements of Cash Flows (unaudited)

	Nine Months September 30, 2002

Cash provided by (used in):	
Operations:	
Net loss	\$ (618,896)
Items not involving cash:	
Depreciation	23,514
Stock-based compensation	-
Foreign exchange on subsidiary operations	12,237
Changes in operating assets and liabilities:	
Change in accounts receivable	2,100
Change in prepaid expenses	1,201
Change in accounts payable and accrued liabilities	696,982
Change in unearned revenue	(259,369)
Change in accrued salaries	62,243

Net cash used in operating activities	(79,988)
Cash flows used in investing activities:	
Purchase of property and equipment	(13,392)

Net cash used in investing activities	(13,392)
Cash flows from financing activities:	
Repayment of loans payable	-
Repayment of lease obligation	(3,860)
Proceeds from bank indebtedness	22,026
Proceeds from (repayment of) advances from related parties	50,827
Issue of share capital	-

Net cash provided by financing activities	68,993

Increase (decrease) in cash	(24,387)
Cash, beginning of period	24,387

Cash, end of period	\$ -
=====	
Supplementary information:	
Interest paid	42,870
Income taxes paid	0

See accompanying notes to the unaudited financial statements.

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FORGE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

1. The Company and description of business:

Forge, Inc. (the "Company") is incorporated in the state of Delaware and is a "permission-based" e-mail marketing and integrated advertising strategies service. The Company's services include the design, delivery, tracking, and analysis of targeted "one-to-one" e-mail campaigns, customized loyalty programs, comprehensive list management/brokerage packages and the creation, integration and execution of both online and traditional advertising strategies.

On May 13, 2002 emailthatpays.com, Inc. ("email"), the Company's parent corporation, was merged into the Company in order to, among other things, change email's domicile from Florida to Delaware and to change its name. References to "the Company" refer to email for periods prior to May 13, 2002.

On October 22, 1999, the Company, then named Realm Production and Entertainment, Inc. ("Realm"), a public company listed on the Over-The-Counter Bulletin Board in the United States, issued 6,572,000 shares of its common stock in connection with the merger of a wholly owned subsidiary of Realm with and into emailthatpays.com ("email Nevada"), a company incorporated in the state of Nevada. This transaction was accounted for as a recapitalization of email Nevada, effectively as if email Nevada had issued common shares for consideration equal to the net monetary assets of Realm. On October 27, 1999 Realm changed its name to tvtravel.com, Inc. and subsequently on December 21, 1999 to emailthatpays.com, Inc.

The Company's historical financial statements reflect the financial position, results of operations and cash flows of email Nevada since its inception and include the operations of Realm from the date of the effective recapitalization, being October 22, 1999. Stockholders' equity gives effect to the shares issued to the stockholders of email Nevada prior to October 22, 1999 and of the Company thereafter.

email Nevada (formerly Hotel Media Group Inc.) was incorporated on June 26, 1998. In August 1999, it acquired 100% of Coastal Media Group Ltd ("Coastal"), a full-service advertising agency founded in May 1998. A common group of

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shareholders controlled both Coastal and email Nevada. For accounting purposes, the transaction was considered to be an acquisition by Coastal for consideration equal to the net assets and liabilities of email Nevada. Accordingly, the assets and liabilities of email Nevada have been recorded at their carrying values in the Company's accounts.

2. Liquidity and future operations:

The Company has sustained net losses and negative cash flows from operations since its inception. At September 30, 2002, the Company has negative working capital of \$1,005,489. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations or to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate sources, or other sources. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required.

Management is working to obtain sufficient working capital from external sources in order to continue operations. There is, however, no assurance that the aforementioned events, including the receipt of additional funding, will occur and be successful.

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FORGE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002

3. Basis of Presentation:

The unaudited consolidated financial statements of the Company at September 30, 2002 and for the three and nine month periods then ended include the accounts of the Company and its wholly-owned subsidiaries and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in these interim statements under the rules and regulations of the Securities and Exchange Commission ("SEC"). Accounting policies used in fiscal 2002 are consistent with those used in fiscal 2001. The results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2002. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2001 and the notes thereto included in the Company's Form 10-KSB filed with the SEC on March 29, 2002.

On May 13, 2002, pursuant to the merger of email into the Company, the Company effected a reverse stock split of email's outstanding common stock by exchanging one share of the Company's common stock for 20 shares of email's common stock. All earnings per share calculations have been retroactively restated to give effect to this reverse stock split.

4. Foreign currency:

The functional currency of the operations of the Company's wholly-owned Canadian operating subsidiaries is the Canadian dollar. Assets and liabilities measured in Canadian dollars are translated into United States dollars using exchange

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rates in effect at the balance sheets date with revenue and expense transactions translated using average exchange rates prevailing during the period. Exchange gains and losses arising on this translation are excluded from the determination of income and reported as foreign currency translation adjustment (which is included in the comprehensive income (loss)) in stockholders' equity.

5. Net loss per share:

The Company computes net loss per share in accordance with SFAS No. 128, Earnings per Share, and SEC Staff Accounting Bulletin ("SAB") No. 98. Under the provisions of SFAS No. 128 and SAB No. 98, basic loss per share is computed using the weighted average number of common stock outstanding during the periods, and gives retroactive effect to the shares issued on the recapitalization described in note 1. Diluted loss per share is computed using the weighted average number of common and potentially dilutive common stock outstanding during the period. As the Company generated net losses in each of the periods presented, basic and diluted net loss per share are the same as any exercise of options or warrants would be anti-dilutive.

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FORGE, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2002

6. Comprehensive income (loss):

Effective January 1, 1999, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting comprehensive income (loss) and its components in financial statements. Other comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. Comprehensive loss for each of the periods presented is as follows:

	Three Months Ended September 30		Nine Months September 30
	2002	2001	2002
Net loss	\$243,827	\$268,840	\$618,896
Other comprehensive (income) / loss:			
Foreign currency translation adjustment	(33,919)	(18,832)	(12,237)
Comprehensive loss	\$209,908	\$250,008	\$606,659

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

This Report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us and about our subsidiary companies, including, among other things:

- o our ability to obtain additional funding;
- o our ability to successfully execute our business model;
- o development of an e-commerce market;
- o growth in demand for Internet products and services; and
- o adoption of the Internet as an advertising medium.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report might not occur.

Results of Operations

For the Three and Nine Months Ending September 30, 2002 and 2001

Revenue

We earn revenues by delivering online direct marketing, promotional, and informational offers and by developing and implementing integrated marketing and advertising strategies. We charge our advertisers based upon a number of criteria including offers delivered, qualified leads generated, online transactions executed and marketing services performed.

Revenue consists of the gross value of our billings to clients and includes the price of the advertising that we purchase from offline and online suppliers. Under marketing services contracts, we recognize the cost of the advertising we purchase for our clients as an expense and the payments we receive from our clients for this advertising as revenue. Under these arrangements, we are ultimately responsible for payment to suppliers for the cost of the advertising that we purchase.

We believe that our revenues will be subject to seasonal fluctuations as a result of general patterns of retail advertising, which are typically higher during the second and fourth calendar quarters. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and consumer buying patterns.

Revenues for the quarter ending September 30, 2002 were \$365,237, an increase of

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19% over the quarter ending September 30, 2001 and a decrease of 51% from the second quarter of 2002. The increase over last year reflects increased spending by existing clients. The decrease from last quarter results from seasonal fluctuations in retail advertising, which typically are higher in the second and fourth quarters. For the nine months ending September 30, 2002, total revenues of \$1,657,961 exceed last year by 74%. This increase results from increased spending of clients, the return of a previous client and an expansion of our services into creative services and production.

Cost of revenue

Cost of revenue represents the cost of advertising purchased for clients. The increase over last year corresponds to our increased revenue. As well, our expansion into creative services and production involved less direct costs and resulted in an increase in our overall margin. Excluding these costs, our gross profit margins have remained relatively constant.

Operating Expenses

Over the last two years we have substantially reduced our operating costs through consolidation of our two western Canada offices into one location, closure of our eastern Canada sales office, controlled use of professional services and reduction of our internal technological staff, outsourcing the maintenance and storage of our technological facilities and utilization of IT professionals on a project-by-project contract basis. On an on-going basis we do not anticipate reducing our operating expenses any further.

The increase in salary costs from \$514,240 for the nine months ending September 30, 2001 to \$605,428 for the nine months ending September 30, 2002 reflects new staff additions and an increase in employee benefits. Other operating expenses also reflect an increase in advertising and promotions due to a one time cost associated with the re-branding of the operating entities and an increase in legal and accounting fees due to the restructuring of the Company.

The decrease in stock-based compensation is due to the vested options being fully amortized and recognized as at December 31, 2001.

Liquidity and Capital Resources

We have sustained net losses and negative cash flows from operations since our inception. At September 30, 2002, we have negative working capital of \$1,005,489. Advances from a company controlled by a principal stockholder are funding our current operations. Our ability to meet our current obligations is dependent upon these advances.

We need to raise funds in order to continue operations and implement our strategies of client realization and servicing, expansion and maintenance of products, brand awareness, technological advancement and infrastructure development. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, our ability to continue operations, implement our strategies, take advantage of unanticipated opportunities, or otherwise respond to competitive pressures will be significantly limited.

Net cash used in operating activities was \$79,988 and \$530,522 for the nine months ending September 30, 2002 and 2001, respectively. Cash used in operations are primarily the result of the net losses of \$618,896 and \$1,078,914, for the nine months ending September 30, 2002 and 2001, respectively.

Net cash used in investing activities was \$13,392 and \$16,882 for the nine months ending September 30, 2002 and September 30, 2001, respectively and relates to purchases of property and equipment.

Net cash provided by financing activities was \$68,993 and \$547,404 for the nine months ending September 30, 2002 and 2001, respectively. Cash provided by financing activities for the period ending September 30, 2002 consists of bank indebtedness of \$22,026 and advances from related parties of \$50,827. Cash provided by financing activities for the nine months ending September 30, 2001 consists of bank indebtedness of \$151,135 and \$333,710 in issuance of share capital.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures - Under the supervision and with the participation of our management, including principal executive officer and principal financial officer, we evaluated the effectiveness of the Company's disclosure controls procedures (as such term is defined in Rules 13a-14(c) and 14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective alerting them on a timely basis to material information relating to Company (including its consolidated subsidiaries) required to be included in the Company's reports filed or submitted under the Act.

(b) Changes in Internal Controls - Since the Evaluation Date, there have been any significant changes in the Company's internal controls or other factors that could significantly affect such controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

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None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

Exhibit Number -----	Description -----
3.3	Certificate of Incorporation of Forge, Inc. *
3.4	Bylaws of Forge, Inc. *
3.5	Certificate of Merger for the State of Florida *
3.6	Certificate of Merger for the State of Delaware *

* Previously filed on Form 8-K12g3, filed on May 13, 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORGE, INC.

Dated: December 6, 2002

By: /s/ Daniel Hunter

Daniel Hunter
Chief Executive Officer,
Principal Accounting and Financial
Officer and Director

CERTIFICATIONS

I, Dan Hunter, Chief Executive Officer and Principal Financial Officer of Forge, Inc., hereby certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Forge, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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- (c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and to the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: December 6, 2002

By: /s/ Daniel Hunter

Daniel Hunter
Chief Executive Officer and
Principal Financial Officer